

THE VALIDITY OF PURCHASING POWER PARITY (PPP) THEORY IN ASEAN-FIVE ECONOMIES: THE BOUNDS TEST APPROACH

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ABSTRACT

This study aims to examine the robustness of different Purchasing Power Parity (PPP) models by applying different types of econometric techniques for the ASEAN-Five economies from 1983:M1 to 2002:M9. Two versions of the PPP models have been estimated using the Engle-Granger (EG) two-step cointegration test, the Johansen-Juselius (JJ) multivariate cointegration procedure and the bounds testing approach (or bounds test) proposed by Pesaran *et al.* (2001). Based on the EG and the JJ multivariate cointegration tests, we found that the absolute PPP model does not hold in the countries under investigation, while the financial data of the five ASEAN countries supported the validity of the relative PPP model when the JJ cointegration procedure were applied. The validity of the relative purchasing power parity was also supported when the bounds test was used in the analysis. Therefore, this study can be viewed as an additional work in providing justification for the theory of PPP in ASEAN-Five economies.